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June 16, 2006

AGENDA ITEM 12

TO: MEMBERS OF THE FINANCE COMMITTEE

I. SUBJECT: Current Budget Issues

II. PROGRAM: Administration

III. RECOMMENDATIONS: Information Only

IV. ANALYSIS:

The Department of Finance approved and forwarded two CalPERS 2006-07 Spring Finance Letter requests to the Legislature. The first letter requesting \$489,000 and 5.5 positions to implement the processing of the Medicare Part D eligibility and reconciliation files, and subsidy requests went to Conference Committee. CalPERS has been notified that the Legislature has taken action in Budget Conference Committee related to our request for administrative expenditure authority for Medicare Part D funds. In addition to the appropriation of funds for CalPERS' administrative expenses, the action provides that CalPERS shall apply for the Retiree Drug Subsidy (RDS) for 2007 and that distribution of RDS amounts in the Special Deposit Fund will be made by the Legislature. The following is the proposed language:

1. Funds appropriated in this item shall be used by the Public Employees' Retirement System to implement the processing of Medicare Part D eligibility files, reconciliation files, and subsidy requests. The Public Employees' Retirement System shall continue to apply directly for the maximum possible amount of Medicare Part D drug subsidies in 2006 and 2007.

2. Notwithstanding the requirements of Provision 1, the Public Employees' Retirement System may choose not to apply for subsidies related to plans that are eligible to act as sponsors and receive Part D subsidies related to their

enrollees, consistent with actions of the Public Employees' Retirement System for calendar year 2006. If the Public Employees' Retirement System chooses not to apply for subsidies pursuant to this provision, the Public Employees' Retirement System shall so notify the Department of Finance, the chairperson of the committees and the appropriate subcommittees in each house of the Legislature that consider the State Budget, the Chairperson of the Joint Legislative Budget Committee, and the Legislative Analyst's Office, and shall include in that notification an explanation of the facts and circumstances underlying that choice.

3. All Medicare Part D drug subsidies received as a result of the applications made pursuant to Provision 1 shall be deposited to the Special Deposit Fund and identified as Medicare Part D drug subsidy funds. The Medicare Part D drug subsidy funds shall be expended for the purposes described in Provision 1. No Medicare Part D drug subsidy funds remaining in the Special Deposit Fund after payment of the uses listed in Provision 1 may be spent or transferred to other funds except upon appropriation by the Legislature. Notwithstanding this prohibition on spending or transferring the funds, the portion of any Medicare Part D drug subsidy funds that (1) are attributable to public employers other than the state that participate in the Public Employees' Retirement System's health programs and (2) remain in the Special Deposit Fund after paying for the activities described in Provision 1 shall be distributed to these other public employers pursuant to a distribution schedule proposed by the Public Employees' Retirement System and approved by the Department of Finance.

4. If the Board of Administration of the Public Employees' Retirement System wishes to propose an amended approach concerning applications for Medicare Part D drug subsidy funds in 2008 or a use for Medicare Part D drug subsidy funds expected to be accumulated in the Special Deposit Fund, the Board of Administration shall submit a proposal for these purposes to the Chair of the Joint Legislative Budget Committee, the chairs of the appropriate fiscal and policy committees of the Legislature, and the Director of Finance on or before December 1, 2006.

CalPERS staff will work with Conference Committee members to address our concerns and amend these provisions before it is approved by the Legislature.

The second letter requesting a \$2.9 million increase in spending authority in the Contingency Reserve Fund was approved by the Legislature. This funding authority will be used to perform data extracts, develop a health actuarial assumption model, and execute a requirements analysis and cost study to assist

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contracting agencies in complying with Governmental Accounting Standards Board 45 reporting requirements. A one-time adjustment to the Contingency Reserve Fund administrative rate for Contracting Agencies was approved by the Board of Administration in April. This administrative fee increase will provide the necessary resources to fund this request.

Original Signed by Russell Fong

Russell G. Fong, Chief
Fiscal Services Division

Original Signed by Curtis Howard

Curtis Howard
Assistant Executive Officer
Administrative Services Branch